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RUEKJCS/JOINT STAFF WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 04 BAKU 000546

SIPDIS

FOR DEPUTY SECRETARY STEINBERG; EUR A/S GORDON; EUR/CARC

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TAGS: [PGOV](#) [PREL](#) [ENRG](#) [KDEM](#) [ECON](#) [AJ](#) [AM](#) [TU](#)

SUBJECT: SCENESETTER FOR DEPUTY SECRETARY STEINBERG'S VISIT
TO BAKU, JULY 10-11, 2009

REF: A. A) BAKU 453

[B. B\) BAKU 524](#)

[C. C\) BAKU 535](#)

Classified By: Charge d'Affaires Donald Lu
for reasons 1.4 (b) and (d).

Summary

[1](#)1. (C) Your visit to Baku comes on the heels of successful visits by U.S. Special Envoy for Eurasian Energy Issues Morningstar, EUCOM General Craddock and Transcom General McNabb, and A/S EUR Gordon. The mood here remains skeptical about the new U.S. administration, fed by perceptions that the U.S. is promoting Turkey-Armenia reconciliation without proper attention to a resolution of the Nagorno-Karabakh (NK) conflict (ref a). Moreover, Baku has loudly and repeatedly complained that the rapprochement process potentially weakens Azerbaijan's position in negotiations with Armenia (ref b), and resists calls for de-linkage. At the same time, President Aliyev has asked for help with repealing Section 907, sales of military equipment and greater U.S. engagement on Nagorno-Karabakh. The country is maintaining macroeconomic and social stability in the face of the global financial crisis, but has taken insufficient steps to reform its economy and root out corruption to ensure longer term sustainability. Nearly one million barrels of oil per day move through the Baku-Tbilisi-Ceyhan pipeline. Democracy and human rights remain problematic areas in the bilateral relationship. End Summary.

Strategic Interests and Orientation

[1](#)2. (C) Azerbaijan's strategic direction is deeply affected by its physical security environment. Sandwiched between Russia and Iran, and with the unresolved Nagorno-Karabakh conflict tying down 70 percent of its ground forces along the Line of Contact, Azerbaijan recognizes the need for strong allies. The August 2008 conflict in Georgia deepened Azerbaijan's sense of insecurity, and caused the GOAJ to re-examine Azerbaijan's strategic orientation. In the face of increasing Russian pressure, and with nervousness about Iran's intentions in the South, the GOAJ has asked the U.S.

for significantly greater tangible support, particularly in terms of security cooperation. In light of President Obama's recent visit to Russia, the President and Foreign Minister will be interested to hear your assessment of the Moscow Summit, including any details about Missile Defense discussions that may involve the Russian-leased Azerbaijani Gabala Radar Station. They will also be well placed to give their views on political developments in Iran.

Turkey and Nagorno-Karabakh

13. (C) Azerbaijan is willing to pursue a political track to solve the matter; however, any solution that does not guarantee the territorial integrity of Azerbaijan is anathema. Azerbaijani views on this issue have intensified in the context of Turkish-Armenian moves toward opening borders, especially in terms of efforts to "de-link" these plans from withdrawal of Armenian forces from Azerbaijan's seven occupied territories. Immediately after the April 22 initialing of Turkish-Armenian "roadmap," Azerbaijan voiced concerns about reconciliation, complaining that Turkey and the United States failed to consult Baku and did not take into account the effect of border opening on prospects for the negotiations to resolve NK. President Aliyev's line on the Turkey-Armenia process is that he is deeply disappointed at Turkish behavior, but Turkey is a sovereign country that can make its own decisions. He adds, however, that Turkey will face the consequences if it delinks reconciliation with Armenia from the NK process, and routinely points to the

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energy sector.

14. (C) Turkish PM Erdogan visited Baku May 13-14 and placated Azerbaijan's immediate concerns. Turkish MFA Under Secretary Cevikoz, however, came to Baku June 22 to inform President Aliyev that Turkey was about to commit to de-linking NK, and pointed to pressure from the United States. Presidents Aliyev and Sargsian met in Prague May 7 and again in St. Petersburg on June 4. The presidents are set to meet again in Moscow July 17. The Azerbaijanis thus far have not accepted the notion that progress in the Turkey-Armenia process encourages progress in the NK peace process. President Aliyev has noted that Sargsian's toughness at the negotiating table at recent meetings has varied directly with the extent to which Turkey appears to predicate a final agreement on a resolution of NK. Your meetings are an opportunity to emphasize that the United States views Turkey-Armenia reconciliation and Nagorno-Karabakh resolution as critical processes that must move forward in parallel, but without a specific link.

Security Cooperation

15. (C) Azerbaijan has increased its defense spending tenfold in five years and now spends about 2 billion dollars annually, or about three percent of GDP. Your GOAJ interlocutors will be unequivocal about Azerbaijan's orientation westward for its security needs, but they will just as forcefully argue that they need American weapons systems to build adequate defenses. Azerbaijanis complain bitterly about the restrictions of Section 907 of the Freedom Support Act even though the waiver provision is applied, because of the "parity" policy on assistance to Armenia and Azerbaijan observed by Congressional appropriators.

16. (C) Late last year Azerbaijan withdrew its 150-man contingent from Iraq, at the request of the Iraqi Government. (The Iraqi Government at that time asked most smaller coalition contingents to depart.) Azerbaijan's troops had successfully partnered with U.S. Marines guarding the Haditha Dam. Since then, Azerbaijan has followed through on its commitment to double from 45 to 90 the size of its military contribution to Afghanistan, and is awaiting the Afghan

Government's response to its proposal of increasing investment and civilian contributions such as construction of schools and training Afghan diplomats and police at its academies. On June 26, EUCOM and CENTCOM teams briefed the MFA and MOD on Afghanistan mission sets, but the Azerbaijanis had many unanswered questions about the training and equipment to be provided. A mission site survey is the next step, along with an assessment of the training and equipment requirements.

¶7. (C) For the past two years, President Aliyev and other senior ministers have continually asked to purchase U.S. military equipment. Last year the Ministry of Defense provided a list of requested "defensive equipment," that included Patriot missiles, self-propelled mortars, Multiple Launch Rocket Systems, Javelin anti-tank missiles, Stinger missiles and UAV aircraft. EUCOM reviewed the entire list and did not believe any of the items would be approved for sale. We have encouraged the Ministry of Defense to put together a Foreign Military Sale request that we could use to begin incrementally a relationship on military sales. For example, President Aliyev has mentioned air defense and yet their initial equipment list lacked a air defense radar system. Offering enhanced cooperation on security to Azerbaijan, particularly in terms of access to U.S. defense technology, may be the best tool we have to mollify Baku's concerns about Turkey-Armenia rapprochement and patch up souring relations.

Energy

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¶8. (SBU) Azerbaijan's massive oil and gas reserves and strategic location place the country at the epicenter of Eurasia energy policy. This was highlighted June 2-5 with the Baku's Caspian Oil and Gas Show. Azerbaijan currently exports about one million barrels of oil per day through two non-Russian pipelines to European markets (Baku-Tbilisi-Ceyhan (BTC) and Baku-Supsa (Georgia/Black Sea)), in addition to the Baku-Novorossiysk (Russia/Black Sea) pipeline, and produces natural gas for export to Turkey and Georgia. As a producer and transit country, Azerbaijan is key to the development of a Southern Corridor to transport Caspian hydrocarbons, including Kazakh oil and Turkmen gas, to European and world markets.

¶9. (C) Discrepancies over the price of Azerbaijani gas now being sold to Turkey and the unwillingness of Turkey to grant transit to Azerbaijani gas for export to Europe have been major obstacles to the realization of a "Southern Corridor" of energy exports. Azerbaijan's recent frustration with Turkey related to reconciliation with Armenia is intensifying this problem, and Baku's recent decision to forge a deal with Moscow on gas sales to GazProm is a result of this. Azerbaijan remains hopeful for a Nabucco inter-governmental agreement, which may be signed in Turkey on July 13, but is weary of fruitless negotiations with Ankara on transit and gas pricing. Meanwhile, international oil companies are urging Azerbaijan to conclude agreements with Kazakhstan to allow oil to flow by tanker to BTC from the mammoth North Caspian Kashagan field, which should come on line in 2013.

Economy Still Strong

¶10. (SBU) The business climate, particularly outside the oil sector, is challenging. Corruption and institutionalized monopolies remain serious roadblocks to further investment. Transparency International's Corruption Perceptions Index (as well as anecdotal evidence from American business contacts in Baku) confirms that Azerbaijan still has a long way to go in stamping out corruption. The WTO accession process could help bring about the legislative and regulatory changes needed to reform Azerbaijan's economy and introduce

transparent, market-driven practices; President Aliyev has pledged support.

¶11. (SBU) The GOAJ believes that it is withstanding the difficulties of the global economic crisis, particularly in comparison to its neighbors. High oil export receipts led to extremely rapid economic growth in prior years, and, with oil approaching USD 70 per barrel, Central Bank and State Oil Fund reserves are mounting once again. Baku has also benefitted from relatively low levels of foreign debt exposure and has not had to devalue its currency. Azerbaijan, which has roughly a USD 44 billion economy, held about 18 billion manat in net reserves as of December 2008.

Democracy and Reform

¶12. (C) The flawed October 2008 presidential election and especially the hastily conducted March 2009 referendum that made 41 changes to the Constitution, inter alia, to lift the two-term restriction on the President, underscored the slowing of Azerbaijan's democratic transition. Likewise, Azerbaijan's parliament unwisely moved this summer to place further restrictions on NGO activities. Intervention from the highest levels of government, as well as a well coordinated response from civil society, prohibited the most egregious changes. Simultaneously, the GOAJ has taken measures to stifle free media, including the removal of broadcasting rights from Radio Liberty, and has limited the practice of Islam in some cases, pointing to threats of radicalism. The opposition in Azerbaijan remains relatively uncoordinated, lacking in popular support as well as having a

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tendency towards infighting. Lack of freedom of assembly is a large problem; nearly 100 young people were arrested on May 10 during several small events mourning the 13 victims of an April 30 shooting at the State Oil Academy.

¶13. (C) Should your Azerbaijani interlocutors raise any of these issues, you are certain to hear complaints that Azerbaijan is treated unfairly by the United States and Europe on human rights and democracy compared to Armenia and others. In particular, President Obama's statement on May 3 World Press Freedom Day, which placed Azerbaijan in the same phrase as Zimbabwe, particularly irked some GOAJ leaders including the President, especially as Russia and Iran, other egregious violators of media freedom, were not mentioned.

Comment

¶14. (C) A visit this early in your tenure demonstrates the strategic importance of the United States' relations with Azerbaijan at a moment of regional turbulence, and will help set the tone for our future engagement. The Azerbaijanis want to discuss the Obama Administration's approach to regional foreign relations, and in particular the Administration's views of Nagorno-Karabakh, Turkey-Armenia rapprochement, and Section 907 of the Freedom Support Act. Enhanced security cooperation and energy sector development are the two most likely areas for improving relations, and on these fronts the President, Foreign Minister and others are prepared to talk.

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